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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

VALASSIS NSA	Docket No. MC2012-14 Docket No. R2012-8

I. Introduction.

The *Milwaukee Journal Sentinel* is a 130- year old Pulitzer Prize winning newspaper serving readers and advertisers in the Milwaukee, Wisconsin market. The *Milwaukee Journal Sentinel* is owned by Journal Sentinel Inc., which is a wholly owned subsidiary of Journal Communications, Inc., a Wisconsin corporation. Journal Sentinel Inc. and its affiliate Journal Community Publishing Group, Inc., a Wisconsin corporation, also own shoppers, newspapers and magazines which are delivered by the United States Postal Service ("USPS").

We respectfully submit these comments for your consideration.

II. Durable/Semi-Durable Goods Advertising is Critical to the Future of Newspapers.

Distributors of durable and semi-durable goods place significant advertising in our newspaper and shoppers, which is classified for our purposes as "retail" advertising. Retail advertising revenues represented 73% of our daily newspaper's advertising revenue in 2011. Approximately one half of our total retail advertising takes the form of pre-prints distributed with our newspaper and shoppers or mailed through the USPS in our total market coverage products ("TMC").

We offer market saturation for our advertisers through the combination of these vehicles, with the TMC products delivered through the mail by our choice. In 2011, our publishing group paid over $6.3 million in postage for the USPS delivery of our newspapers, magazines and advertising products.

Newspapers, including the *Milwaukee Journal Sentinel,* are dependent on advertising revenues to bring quality journalism to our communities. We play a unique and important role in our democratic society and local communities. In this time of economic pressure and a changing industry business model, newspapers must have a fair chance to compete for all available advertising business, including that from large national distributors of durable and semi-durable goods. The proposed Valassis NSA would create an extremely unlevel playing field, piling on top of the current USPS discount structure that heavily favors Valassis through the "saturation rate" already available to Valassis and not available to our newspaper or most newspapers (which pay higher 'high density' rates to mail our Total Market advertising products.)

III. The Proposed Valassis NSA Does Not Meet ANY of the Requirements for a NSA.

A. The Proposed Valassis NSA Would Not be Available to Similarly Situated Mailers.

By law, NSAs must be "available on public and reasonable terms to similarly situated mailers." 39 U.S.C. § 3622(c)(10). Other provisions of law prohibit "unreasonable discrimination" and "unreasonable preferences" in favor of any mailer. 39 U.S.C. § 403(c).

In contrast, the proposed NSA has been created in a way that advantages one mailer and one mailer only. Newspapers, shoppers and other mailers offer products designed to reach an entire market and use the Postal Service for TMC products, shoppers and other direct mail advertising. Indeed, not even a future mailer could qualify for the significant rebate since to take advantage of the proposed NSA, a mailing program must have been in existence at least monthly for the past two years, and must continue. No one except Valassis can be expected to ever benefit from the proposed NSA.

The proposed Valassis NSA does exactly what the law prohibits, and should be rejected on this basis alone. The mere prospect of an increased future volume of mail – which Valassis is not even contractually committed to deliver – is not sufficient to justify the proposed additional discrimination in rates against other similarly situated mailers like our newspaper and shoppers.

B. <u>The Proposed Valassis NSA Is Not Likely to Improve the Net Financial Position of the USPS.</u>

In terms of a net positive financial impact for the USPS, the proposed Valassis NSA is an empty promise. If approved, the proposed NSA would allow Valassis to promise its customers the benefit of up to a 63% discount on higher weight packages compared to what we have to pay to mail. Valassis could do this for up to 12 months before actually delivering an increased volume of mail. During this elongated year-long window, Valassis's rate advantage could disrupt and damage existing rate programs in force between newspapers and their customers. And, even if Valassis were able to and chose to invest what would be required for it to move forward with the increased volume, its minimum volume commitment under the proposed NSA of 1,000,000 pieces is an estimated less than 1/3 of 1% volume increase, at significantly reduced revenue rates for the USPS. And the consequences to Valassis should it fail to launch the increased volume are minimal.

Other direct mailers – including our company which delivers TMC and shopper products through the mail – would be forced to re-evaluate their choice to use the USPS. The net impact of the decrease in volume and revenue from newspapers and other mailers who cannot offer competitive mailing rates to their customers might well exceed the increase, if any, from Valassis' mailings.

So, on what may well turn out to be an empty promise of increased volume from one mailer, the USPS will disincentivize all other mailers from using its services and encourage them to invest in other distribution means.

The empty promise from Valassis and the disincentive to other mailers to continue to use the USPS lead to the conclusion that the proposed NSA should be rejected on the grounds that it is not likely to improve the net financial position of the USPS.

C. The Proposed Valassis NSA Would Cause Unreasonable Harm to the Marketplace.

The competitive position of our newspaper and publishing business will be harmed if the proposed Valassis NSA is approved. The proposed additional preferential rate advantage for Valassis will put at risk important revenues from distributors of durable and semi-durable goods, in effect giving Valassis an unfair and USPS-subsidized competitive advantage.

The USPS grossly underestimates the financial impact of the proposed Valassis NSA on our advertising market, claiming that the USPS' estimated revenue of $107 million over three years is only 0.6 percent of forecasted newspaper revenue in 2014. This estimate understates the impact of the proposed NSA. The USPS is comparing its postage revenue to total newspaper advertising revenue. In assessing the impact on the marketplace, USPS should put forward more relevant data that examines Valassis' ad revenues versus local newspaper advertising revenues for durable and semi-durable goods. In our major daily newspaper market of Milwaukee, for example, over 80% of our 2011 Sunday preprint revenue came from those customers which could meet the definition of retailers of durable or semi-durable goods. Of that number, 65% of the advertisers noted do business in over 30 states, one of the NSA criteria. Therefore, this

NSA could theoretically put over half of our entire Sunday preprint revenue in jeopardy…levels far in excess of the 0.6% cited by Valassis in its proposal.

Furthermore, in an extension of the inequal playing field – certain national preprint advertisers in our market (i.e. Home Depot, Lowe's) qualify for the 30-market criteria, and other regional retailers who are their direct competitors (Menards) do not. These regional retailers would suffer a competitive disadvantage should their national competitors gain this significant price-based marketing advantage through the Valassis NSA.

VI. **Conclusion**

We respectfully ask that you reject the proposed Valassis NSA. It fails to meet the legal requirements for a NSA. It offers nothing less than a USPS-sponsored subsidiary to one mailer and one mailer only. There is inadequate support to conclude that there will be a net financial benefit to the Postal Service, and no commitment whatsoever from Valassis that makes the hoped for financial benefit likely. And the proposed NSA allows Valassis, which already benefits from preferred "saturation" rates not available to our newspaper or most newspapers, to compete unfairly for business from a major category of our advertising revenues and can be expected to harm the marketplace significantly.

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